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Medicare Bill Would Enrich Companies

$125 Billion More for Employers, Health Firms

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The Medicare legislation that passed the House near dawn on Saturday and is moving toward a final vote in the Senate would steer at least $125 billion over the next decade in extra assistance to the health care industry and U.S. businesses, in addition to its widely heralded goal of helping older Americans pay for prescription drugs.

The largest chunk of that assistance, according to congressional budget estimates, would be $86 billion worth of payments and tax benefits for employers, giving them a new subsidy for the health benefits that many already provide to retirees. Health maintenance organizations, hospitals and physicians also would be paid more by the government for treating the 40 million elderly and disabled people in Medicare, the estimates show.

Whether this extra money, part of a $400 billion plan to redesign the program, is warranted remains a matter of intense debate. Regardless of whether the payments are needed, the bill's generosity to employers and major sectors of the medical industry helps explain the aggressive lobbying campaigns for the legislation by groups including the U.S. Chamber of Commerce and the American Medical Association.

Liberal and conservative health policy analysts say the payments undercut a significant goal of the White House and congressional Republicans in redesigning the Medicare system: preventing it from running out of money in the near future.

One of the bill's main architects, Ways and Means Committee Chairman Bill Thomas (R-Calif.), has repeatedly said that expensive new drug benefits must be balanced against other steps that will rein in the program's spending. The most recent federal estimates predict that Medicare will become insolvent in 2026 because Americans are living longer and the large baby-boom generation will start to retire in a few years.

Yet, as House and Senate members have worked out an agreement on the Medicare bill, "nobody is serious about the solvency goal," said Stuart Butler, vice president of domestic and economic policy studies at the conservative Heritage Foundation, which opposes the legislation. "That isn't even on the radar screen of more than a handful of members."

The extra money to private health care companies is part of the reason many Democrats oppose the measure. Sen. Edward M. Kennedy (D-Mass.), his party's leading voice in the Senate on health care and a vehement critic of the bill, said last week that provisions calling for increased payments to HMOs and other health plans were "obscene."

Kennedy and other critics say that, for the first time in the many years that Medicare has encouraged private health plans to welcome older patients, the government would be abandoning its original rationale that managed care is more economical. Instead, the bill would create new funding rules to ensure that no private plan is paid less than the rates that Medicare pays for patients in the traditional, fee-for-service part of the program. It also would establish a special $12 billion fund to try to persuade health plans to enter -- or stay in -- parts of the country where they have been scarce.

Lobbyists for health plans counter that they cannot afford to take Medicare patients unless they are paid enough to make it worthwhile. But health economist Marilyn Moon said: "It is very ironic. . . . To increase participation in private plans, we are going to overpay them for the foreseeable future."

The extra payments in the bill have varying purposes. One is to send more Medicare money to doctors, hospitals and other care providers in rural areas, through a combination of funding methods that total about $25 billion over 10 years. Rural health care advocates -- and the lawmakers who represent them -- made that money a top priority.

The thinking behind the new employer subsidies is connected to the new drug benefits. Once federal benefits became available, corporate executives told lawmakers and Bush administration officials, companies might accelerate a recent trend in which some have been dropping -- or charging more for -- health coverage for retired workers.

As a result, the House and Senate members who negotiated for four months over separate Medicare bills that the two chambers had passed included incentives to deter companies from abandoning their retirees. The bill would give companies essentially the same amount of money per retiree that the government would provide in subsidies to individual Medicare patients who got the new federal coverage for prescription drugs. The employers would get $70 billion in direct payments and $16 billion more in new tax breaks over the next 10 years.

Thomas A. Scully, administrator of the federal agency that runs Medicare, said employers "should be having a giant ticker-tape parade." Scully recalled that he and Health and Human Services Secretary Tommy G. Thompson met in the spring with labor and corporate leaders -- including the chairmen of General Motors Corp., General Electric Co. and a major steel manufacturer. "Their joint plea was, retiree health costs are an unbelievable burden." They requested what Scully called "a modest buyout," equivalent to perhaps $350 per retiree. The bill, he said, provides more than twice that amount, a sum "way beyond their wildest requests."

Employers repaid with their support. Nine days ago, less than an hour after House and Senate leaders announced their compromise on the legislation, the Business Roundtable, an organization of chief executives of large corporations, issued a statement praising the agreement.

Similarly, the American Medical Association has mounted a grass-roots campaign in which about 10,000 doctors and their patients have contacted their congressional representatives in recent weeks, urging them to vote for the measure. The bill would cancel a planned decrease in Medicare's payments to physicians for the next two years, providing them a small increase instead. That would give doctors an extra $2.5 billion over the next five years, although the money would be decreased after that.

Together with special physician subsidies in rural communities, the bill would give physicians $1.9 billion more in Medicare payments during the next decade than they would get otherwise, the budget analyses show.

Donald J. Palmisano, a New Orleans surgeon who is the medical association's president, said the payments were important "to make sure physicians can stay in the practice of medicine."

"It will be of no value to have medical coverage or a prescription drug benefit if you can't find a physician," he said.

Hospitals would get nearly $24 billion extra over the next decade, about two-thirds of it in rural areas. The rest would be used to help defray the cost of new technologies and training doctors and to give all hospitals a bigger boost for inflation next year than the House originally wanted.

"I really take issue with anyone who would question the need of those hospitals that are critical to Medicare beneficiaries," said Charles N. Kahn III, president of the Federation of American Hospitals. But health policy analyst Gail Wilensky, a Republican who used to run Medicare, said hospitals rarely have received as much money to cope with rising costs as they would get from the bill.
